SOUTHERN AFRICA GLOBAL COMPETITIVENESS HUB

Impacts of the African Growth and Opportunity Act (AGOA) on Southern Africa: A Progress Report

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1. INTRODUCTION

1.1 Purpose of this report

Part of the mandate of the Southern Africa Global Competitiveness Hub (SAGC Hub) is to ensure that Southern African countries take full advantage of the African Growth and Opportunity Act (AGOA) to increase trade and business links between the U.S. and the SADC region. This report looks at progress in Southern Africa under AGOA provisions to increase trade. Included are trade figures by major export sector, impacts on employment, AGOA-related investment and expansions, prospects for the regional textile and apparel industry beyond 2004 (post-special rule), regional and national strategies to take advantage of AGOA opportunities, government trade and investment liberalization measures, and transportation and infrastructure enhancements. SACG Hub interventions resulting in trade facilitation and trade increases will also be noted.

1.2 Background

AGOA, enacted in 2000 and implemented in 2001, offers the most liberal access to the U.S. market available to any country or region with which the U.S. does not have a Free Trade Agreement. AGOA extends the Generalized System of Preferences (GSP) status for qualifying African countries to September 2008 and expends the existing list of 4,650 GSP products by 1,837[1].

AGOA reinforces African reform efforts, provides improved access to U.S. credit and technical expertise and establishes a high-level dialogue on bilateral trade and investment policy issues through the U.S.-Sub-Saharan Trade and Economic Forum.

Twelve countries in the Southern African Development Community (SADC) have been deemed AGOA-eligible on the basis of political and economic performance criteria. These countries are Botswana, Democratic Republic of Congo (approved in 2002), Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania and Zambia. These countries must establish or be making progress toward establishing: market-based economies, political pluralism, elimination of barriers to trade and investment, protection of intellectual property, health care and educational programs, human and worker rights protection and elimination of child labor abuse.

In addition, countries wishing to receive AGOA textile and apparel benefits must set up effective visa systems to prevent illegal transshipment and use of counterfeit documentation. As of May 1, 2003, 11 countries of Southern Africa were declared eligible to receive AGOA textile and

[1] "Africa Growth and Opportunity Act: Hot Air or Hot Stuff?" Matthew Stern and Nnzeni Netshitomboni, South African National Treasury, 2001.

apparel benefits: Botswana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania and Zambia[2].

2. TRADE DEVELOPMENTS

2.1 Trade Developments Since AGOA Began

Total exports from Southern Africa to the world have decreased by 8 percent from 2001 to 2002 for the ten AGOA-eligible countries that the SAGC Hub currently works in (Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania and Zambia).[3] This decrease has been fueled by the economic downturn in the United States and low world prices for many traditional commodities. The predominant market for SADC exports is the European Union, followed by the U.S. and the Far East representing as much as 90 percent of total exports from the region. Of the countries listed, only Lesotho currently exports more to the U.S. than to the European Union as nearly 96 percent of its exports went to the U.S. market in 2002.

Total exports from these same countries to the U.S. increased by 5 percent from 2000 to 2001 when AGOA was implemented and have remained stable at $5.1 billion over the 2001 to 2002 period. Table 1 presents total U.S. imports from 2000 to 2002 from AGOA-eligible countries in Southern Africa. Note that Botswana, Namibia and Mozambique did not begin exporting under AGOA until 2002.

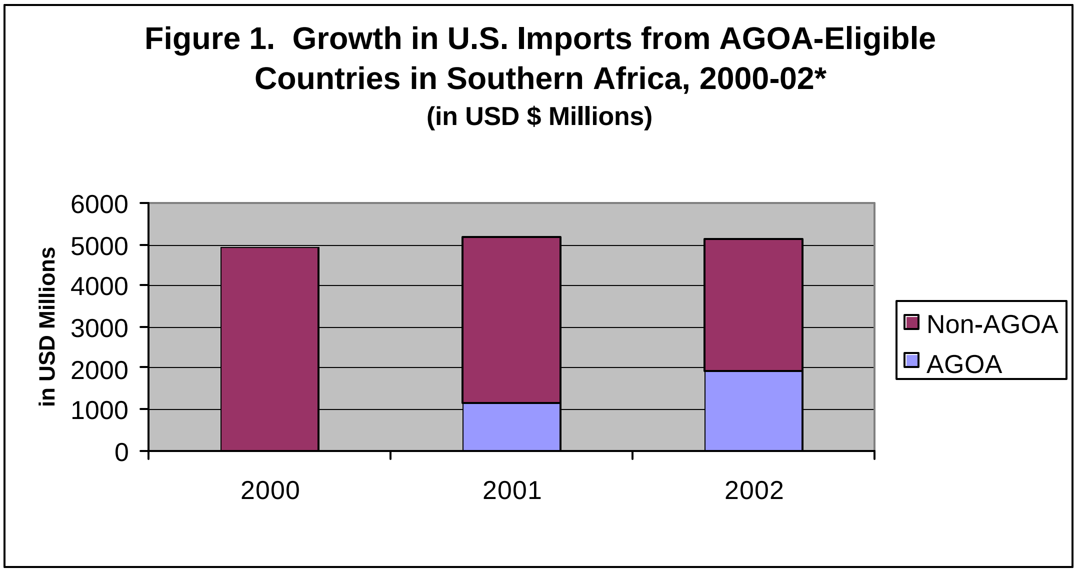
Table 1. Total U.S. Imports from AGOA-Eligible Countries in Southern Africa, 2000-2002
(in $ Millions)

Country	2000	2001	2002
Botswana	40.5	21.1	29.7
Mozambique	24.4	7.1	8.2
Namibia	42.2	37.7	57.4
Lesotho	140.2	217.2	321.5
Malawi	68.1	71.8	68.1
Mauritius	286.0	275.1	280.4
Swaziland	52.6	65.0	114.5
Tanzania	35.3	27.2	25.3
Zambia	17.7	15.6	7.8
South Africa	4,203.7	4,429.5	4236.0
Total	4,910.6	5,167.5	5,148.8

[2] 2003 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implement of the African Growth and Opportunity Act, Office of the United States Trade Representative, May 2003.
[3] Reporting countries import statistics for January – October, World Trade Atlas database, Global Trade Information Service, April 2003.

Source: U.S. International Trade Commission, reportweb.usitc.gov

The portion of these exports under AGOA provisions, however, has increased substantially from $1.1 billion to $1.9 billion due to expanded duty-free market access. Figure 1 represents the growth in the AGOA portion of U.S imports from Southern Africa from 2000 to 2002.



*Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania and Zambia
Source: U.S. International Trade Commission, reportweb.usitc.gov

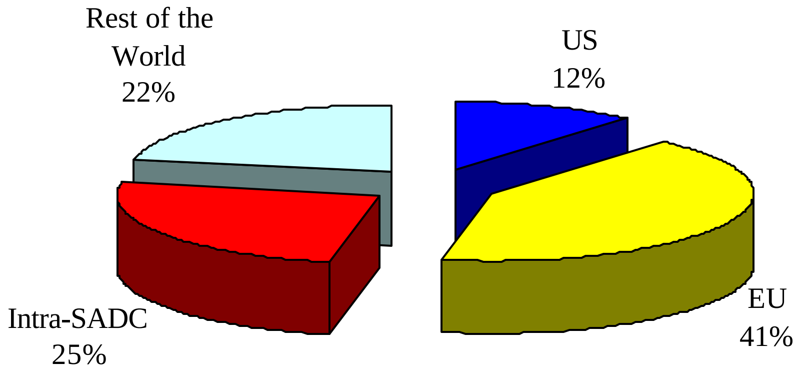
Notes: Under AGOA, the Generalized System of Preferences (GSP) list of duty free imports has been expanded by 1,837 products, allowing a total of 6,487 products to be imported without tariffs. Non-AGOA imports into the U.S. are subject to as much as 50% tariffs.

2.2 Intra-SADC Trade

Trade between SADC member countries (excluding Angola, Democratic Republic of Congo, Seychelles and Zimbabwe) has been approximated at $9.6 billion for 2001.[4] This represents roughly one-quarter of the region's total export trade.[5] Intra-SADC trade has increased from 20% to 25% between 1999 and 2001 due to the removal of certain tariff and non-tariff barriers under the SADC-Free Trade Area and more capital investment from South Africa into the SADC region. Figure 2 represents a breakdown of SADC exports in 2001 by major market share.

[4] USAID/RCSA Strategic Objective 2 Performance Monitoring Plan, IMPACT Project, 2003
[5] Data on world trade comes from Global Trade Information Service, World Trade Atlas database. Data on intra-SADC trade has been approximated by RCSA/IMPACT project from Central Bank Statistics.

Figure 2. SADC Exports by Major Market Share, 2001 for 10 SADC Countries*



*Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania and Zambia

Source: data from Global Trade Information Service, World Trade Atlas database and RCSA/IMPACT estimates.

3. IMPACTS

3.1 AGOA Impacts by Sector

Developments by major export sector under AGOA provisions are detailed in the following paragraphs.

3.1.1 Textiles and Apparel

Impressive gains have been made in textile and apparel exports as a result of AGOA. Total textile and apparel exports to the U.S. from AGOA-eligible countries in Southern Africa have doubled from $732 million in 2001 to $1.4 billion in 2002. Exports under AGOA provisions account for 43% of this increase (from $211 million to nearly 600 million). Swaziland enjoyed the most dramatic increase in exports under AGOA provisions from $48.1 million to $89.1 million, an 85% increase, during the same period. In 2002, Botswana and Namibia were extended Lesser Developed Beneficiary status under AGOA II legislation allowing them duty-free/quota-free access to the U.S. market for apparel exports made from fabric originating anywhere in the world, in spite of their relatively high per capita GNP. Textile and apparel exports make up nearly one-third of AGOA exports from the region. The value of U.S. textile and apparel imports from Southern Africa is shown in Figures 3 and 4 by exporting country.

Figure 3. Value of Textile and Apparel Exports to U.S. for SADC Countries which Began Exporting under AGOA in 2001

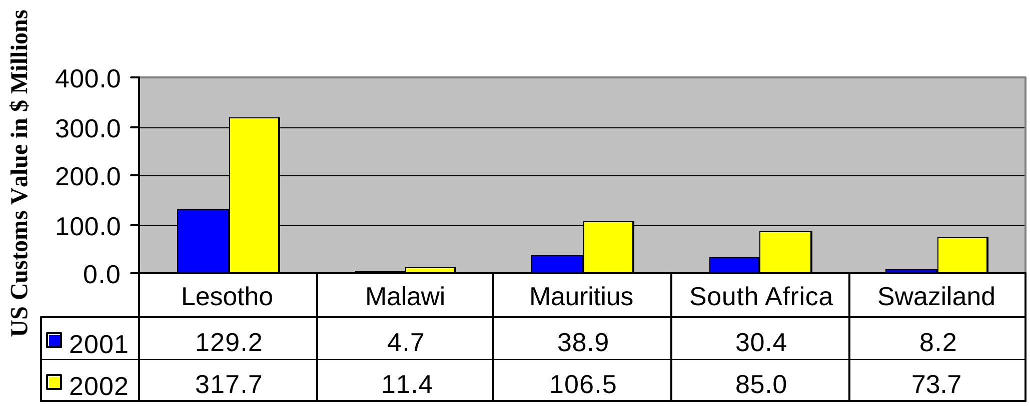
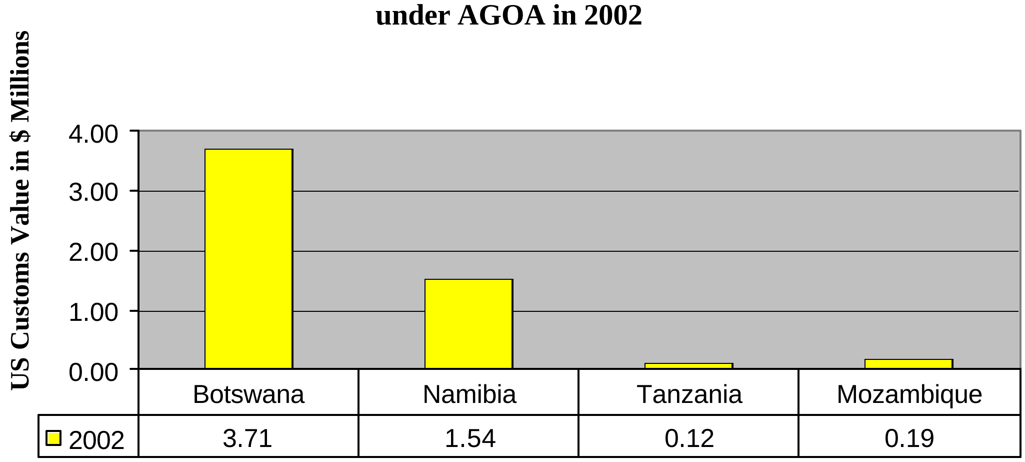


Figure 4. Value of Textile and Apparel Exports to U.S. for SADC Countries which Began Exporting under AGOA in 2002



While many countries were exporting clothing to the United States prior to AGOA, firms are expanding production to take advantage of the elimination of import duties under AGOA. One garment manufacturer in Botswana has increased his employment from 500 employees in 2001 to 1,300 in 2003. The company exports knit-to-shape sweaters to the US and enjoys a valuable duty savings. The tariff on knit-to-shape sweaters is also zero for AGOA eligible countries and is 32.2% for non-African exporters. US apparel buyers place orders in Africa because the quality is good and the price is competitive.

3.1.1.1 Hub Assistance

The Hub has been working closely with many textile and apparel producers in the region, providing technical assistance in many forms such as:

a) export guidance and clarification of AGOA requirements (e.g. which products are eligible under AGOA provisions);
b) identifying U.S. buyer outlets and markets and linking them to garment manufacturers in the region;
c) organization of textile seminars (U.S.-International Textile Association held in Botswana October 2002);
d) creation of a database of companies and government agencies in the region to link textile and apparel companies as well as government promotion agencies in the region via email.

In addition, the Hub has worked with textile and apparel associations representing more than 300 garment manufacturing companies in Lesotho, Swaziland and South Africa to disseminate important information on U.S. Customs regulations, export requirements and market opportunities, saving their members valuable time and money. The Hub has also facilitated $90 million in increased revenues for 20 garment manufacturing companies from ten countries in the region by providing key information and assistance. Based on an average order size of 500,000 garments, Hub technical assistance resulted in new orders worth on average $3 million per order for the companies seeking assistance.

Caratex—Reshaping Garment Exports

Caratex Botswana produces knit-to-shape jerseys/sweaters primarily for the U.S. and European markets. Caratex exported over $1 million worth of apparel to the United States in 2002, and has increased employment from approximately 500 workers in early 2001 to over 1,300 in 2003. The audited financial accounts for Caratex shows that the company earned over 36 million Pula ($7.2 million) for the year ending 2002 in total apparel exports--a dramatic increase from 2001 sales. The Hub assisted Caratex in getting approval under the Botswana AGOA Apparel Visa System and represented Caratex with the U.S. Government stakeholders over AGOA eligibility for Knit-to-Shape products—which was later included in the AGOA II legislation. Once Caratex began the exporting process under AGOA II the Hub, at the company's request, represented them before the U.S. Customs agency to address specific issues regarding customs procedures and duties as it related to the new AGOA II legislation.

Caratex's export success has facilitated the development of a knit-to-shape cluster in Botswana companies that meet and work together to discuss best practices and how to overcome impediments to trade. Currently Caratex is expanding its operations; on September 1, 2003 Caratex will launch a company called Vision; which will produce high quality men's and women's suits and business attire and will employ 600 additional workers. Plans for Caratex II are underway which will more than double the current size of the company. Caratex is true AGOA success story.

3.1.2 Agricultural Products

Agricultural exports from the SADC region to the U.S. increased from $132 million to nearly $178 million or by 35% under AGOA provisions last year. Big gains have come from fresh and processed fruit products such as citrus, table grapes, pineapples, which have increased by 17%, 1,276% and 98% respectively. Swaziland has more than tripled its exports of pineapple and citrus products to U.S. markets, while South Africa, the dominant agricultural exporter, has increased exports of fresh and frozen vegetables, fruits and fruit juices, nuts and wines by 95 percent. About ten percent of AGOA exports from Southern Africa come from the agricultural sector.

3.1.2.1 Hub Assistance

While exports of processed fruit and vegetables to the U.S. have increased under AGOA provisions, exports of fresh fruits and vegetables have moved slowly for all countries in the SADC region due to stringent U.S. food safety requirements and the lack of knowledge and up to date information to meet these requirements.

The Hub has assisted potential exporters of fruit and vegetables in the region by preparing applications for permit to enter the U.S. market for table grapes in Namibia, baby vegetables in Zambia and mangoes in South Africa. This is the first step in the process of exporting produce to the U.S. The next requirement is that each country supply a list of current pests for that particular commodity which serves as a basis for the Pest Risk Analyses (PRA). In all countries of the region, commodity pest lists are not up-to-date and there is lack of expertise to carry out PRAs.

In an effort to address this deficiency, the U.S. Department of Agriculture has authorized a long-term field expert to work with Hub experts in conducting PRAs and other testing procedures. The representative from the Animal Plant and Health Inspection Service (APHIS) will be examining potential export commodities in Namibia, Zambia and South Africa initially and working with national institutions to strengthen phyto-sanitary inspections. The Hub has provided the APHIS representative with current pest lists for two of these countries as a starting point for the PRAs.

In addition, exporting countries need access to accredited laboratories to determine that each shipment is free from pests and diseases. At present, destination labs must be used to certify shipments, which is costly for the exporter in time and money. In response to this problem, the Hub has provided technical assistance through a pilot project to conduct laboratory assessments in Mozambique and Tanzania. The laboratory surveys were conducted to assist those countries in improving their procedures for addressing international standards and attaining SANAS (South African National Accreditation System) accreditation. The templates produced as a result of the surveys will allow the Hub to potentially target its assistance to other laboratories in the region in the future.

Finally, to assisting exporters of fresh produce, the Hub provided technical assistance to agro-processors through the establishment of a pilot project to install a Hazard Analysis Critical Control Point Plan (HACCP) in a fruit processing plant in South Africa. Installation of a HACCP plan requires only about six months if other food safety practices are in place allowing the export of processed agricultural products to begin soon after establishment, whereas meeting FDA regulations to export fresh produce can two years or more to complete due to the lengthy PRA process.

SWAZICAN—AGOA Success in a Can

Swazican is a local fruit processor located in Malkerns, Swaziland. They have been producing juices, jams, and canned fruit for export and regional consumption for over 20 years. Swazican had been exporting small quantities of processed grapefruit and oranges to the United States prior to AGOA but looked at the market as secondary to other regions of the world. After a visit from the Hub to Swazican to discuss new AGOA opportunities for their products, the company later began expanding their exports from two categories mentioned above to five including orange and mixed citrus juices and pineapple in January 2003 shipping over $400,000 to the US since 2001. Swazican exported a total of $273,000 in duty paid processed grapefruit from 1997-2000. According to the Managing Director, the company's production capacity has increased over 17% in 2002 and a total of 44% over the last three years. Employment at the factory has increased by 210 jobs in the last year. At least half of those jobs were the result of increased trade with the United States. Swazican buys the bulk of their fruit from local growers and the balance is imported from Mozambique and South Africa providing additional employment in the citrus sector as capacities expand. Though Swazican is a relatively small manufacturing facility, the company intends to continue increasing their exports under AGOA as they develop their US distribution channels and increase their overall production capabilities.

3.1.3 Minerals and Metals

Minerals and metals represent a significant export sector to the U.S. market for Southern Africa, particularly for South Africa, which supplies large quantities iron ore and steel. Last year exports under AGOA increased by 66 % from $369 million to $612 million. In 2002, the U.S. imposed a 30% tariff on steel imported from developed countries (Japan, Europe and Russia) from which South African exports were exempted, which has boosted production in South Africa. Iron ore exports to the U.S. under AGOA represent about 7 percent of the total imported.

3.1.4 Transportation Equipment

This sector is comprised primarily of motor vehicles for transport of persons, auto parts such as catalytic converters and auto accessories, and is exclusively supplied under AGOA by South Africa. Total exports increased from nearly $398 million in 2001 to $616 million in 2002. The AGOA portion increased from $300 million to $545 million during the same period, representing 88% of the total. While a weak U.S. dollar is dampening demand for auto imports at present, prospects for auto exports to the U.S. market, particularly luxury cars such as

BMWs remain strong. BMW Germany has shifted significant production to South Africa, investing 2 billion SA Rand to upgrade a manufacturing plant in Pretoria. It is estimated that the elimination of the 2.5 ad valorem duty on auto imports into the U.S. market, under AGOA results in a savings of $600 per vehicle.[6] This reduces the additional cost of shipping from South Africa, providing incremental profits.

It should be noted that while AGOA has provided duty-free incentives to the South African motor industry, the biggest driving force in the increase in exports has been the Motor Industry Development Program (MIDP), established in 1995, which essentially subsidizes the industry through the reduction of import duties on vehicle components. Vehicle exporters receive privileges to import components and vehicles on a duty-free basis for the production and sale of vehicles in the protected domestic market.[7]

3.2 Employment Impacts of AGOA

It is estimated that more than 180,000 jobs have been created in Southern Africa since AGOA began.[8] This number is even higher if the indirect and induced impacts of direct employment are considered. The largest number of jobs has been created in the textile and apparel sector. Details on jobs in this sector by country as well as planned investment and additional jobs are presented in Table 2 on the following page.

New jobs created in other economic sectors such as agriculture, transport equipment, manufacturing, etc. are estimated at 70,000 in South Africa alone, bringing the total to 180,000 new jobs. If the indirect and induced employment impacts are considered, the total increases to 360,000 jobs.[9]

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[6] International Trade Administration website.

[7] "From Import Substitution to Export Promotion: Driving the South African Motor Industry," Frank Flatters, Queens University (Canada), November 2002.

[8] U.S. Trade and Investment with Sub-Saharan Africa, Third Annual Report, U.S. International Trade Commission, December 2002 and SAGC Hub estimates based on company interviews.

[9] "Macroeconomic Impact on the South African Economy of Duty-free Exports to the United States which Fall under GSP and its Extension to AGOA," Conningarth Economists, June 2002.

Table 2. Job Creation in the Textile and Apparel Industry in Southern Africa Under AGOA

Country	Number of jobs	Additional job creation from planned new investment (2003-2004)
Botswana	5,000	500
Lesotho	40,000	3,000 (1 textile mill)
Malawi	4,000	
Mauritius	5,000	
Mozambique	4,000	
Namibia	5,000	8,000 (1 textile mill and 4 garment factories)
Swaziland	30,000	2,000 (1 textile mill)
South Africa	14,000	
Tanzania	1,500	
Zambia	1,500	
Total direct employment	**110,000**	**13,500** Additional jobs being created

Sources: U.S. Trade and Investment with Sub-Saharan Africa Third Annual Report, U.S. International Trade Commission, December 2002 and SAGC Hub estimates based on company interviews.

3.3 New Export Categories from the Region

Companies throughout the region are exporting new products to the United States under AGOA. The lucrative tariff benefits offered by the legislation has provided the duty free incentives necessary for regional exporters to attract US buyers (through lower prices) whom might not have otherwise considered Southern African suppliers. As an example, South African footwear manufacturers are exporting shoes for women and children to the United States under AGOA. One category of exports[10] has grown by 110% from 2001 to April 2003. The tariff on this product is zero for AGOA eligible African producers and 37.50% for the rest of the world. Such a significant duty advantage offers footwear manufacturers an "edge" in the US market and an opportunity to introduce the quality of their products to first-time American buyers at a substantial cost savings. Footwear exports have more than tripled from the region since 2001, primarily coming from South Africa.

Botswana, Namibia, Tanzania, Zambia and South Africa exported over $20 million in duty-exempt leather, footwear, travel goods and handbags to the U.S. in 2002.[11] Of the non-AGOA products exported to the U.S., the vast majority is raw, semi-processed or finished hides.

[10] The category is "footwear with outer soles of rubber, plastics, composition leather and uppers of leather, not covering the ankle, for women, children, and infants, values over $2.50 per pair."

[11] "Regional Leather, Leather Goods and Footwear Supply Chain Study for Southern Africa, Southern Africa Global Competitiveness Hub Technical Report, Shawna Turner, July 2003.

Horticulture is a growing industry in Southern Africa. South Africa, Tanzania and Zambia are currently exporting cut flowers into the US market. In 2002, $432,000 worth of cut roses was exported from these countries to the U.S. AGOA eliminated duties on cut roses, one of America's most popular flowers, providing growers with a 6.80% savings. The United States is a relatively new market for most African flower companies and AGOA has provided the opening needed by the companies to explore the new possibilities. Tanzania, led by primarily citizen-owned companies, has substantially increased their exports in cut roses from $16,000 in 2001 to $372,000 in 2002 as growers increasingly work together to supply orders and share transport costs to the US.

3.4 Regional Impacts of AGOA

Developing regional supply chains is the key to long-term, sustainable development in Southern Africa. AGOA continues to encourage regional supply chains in products like textiles and apparel. AGOA regulations require that Mauritius and South Africa to source their yarn and fabric from the region to export clothing duty-free to the US. As a result, new opportunities for yarn spinners and fabric manufacturers to supply garment factories have developed in the region. One Zambia yarn spinner had been trying to break into the Mauritian market for many years. After the passage of AGOA, the company now supplies 25% of its yarn production to Mauritian companies. The Hub has helped organize regional selling missions for at least seven major South African fabric companies to help create the strategic regional buying/selling partnerships between textile and apparel manufacturers needed to drive AGOA exports in the future. The most frequent reason sited by apparel manufacturers, particularly in Lesotho and Swaziland, for closing business and leaving the region in 2004 is the lack of suitable regionally produced fabric. Putting garment and textile manufacturers together today allows for cooperation and product development to begin long before the September 2004 deadline occurs further enhancing Southern Africa's chances of reducing divestment.

Many companies have responded to AGOA by vertically integrating their factories to produce both fabric and clothing. Vertical integration increases efficiency and profit making the company more competitive in the global marketplace. In response to AGOA opportunities, one company in Tanzania completely refurbished their factory to produce export quality fabric and clothing for both the European and American markets. They are one of several companies in the region now exporting clothing as well as supplying garment manufacturers with fabric.

Another company in Lesotho has taken different route towards vertical integration by purchasing an existing textile mill to manufacture fabric for their garment factories. This firm produces over 2.5 million trousers per month for the US market and will be using over 66 million meters of 100% regionally produced fabric per year beginning in 2004 providing hundreds of new jobs in the industry.

4. AGOA-RELATED INVESTMENT

Sub-Saharan Africa has attracted over $1 billion in investment since the passage of AGOA in 2000.[12] Although U.S. imports from the region fell by nearly 24% from 2000 to 2002 due to a decrease in demand fueled by the U.S. recession, imports under AGOA provisions increased by 10% to $9 billion,[13] preventing an even sharper drop in overall U.S. imports from Sub-Saharan Africa.

Much of the investment dollars have come to Southern Africa, particularly in the textile and apparel industry. In 2001, Ramatex, a Malaysian firm, chose Windhoek, Namibia as the destination for the largest single textile and apparel investment in Africa. Ramatex has invested approximately $25 million in a vertically integrated textile and apparel factory for the production of t-shirts for the US market. Production estimates run as high as 500 20 ft. containers to the US per month employing almost 10,000 Namibians. In addition, two more garment manufacturers have located at the site employing another 1,500 people each. As a result of this new productive capacity, sea freight lines calling at the Port of Walvis Bay have agreed to upgrade the port from a bi-weekly feeder route to a weekly route direct to the United States to accommodate the apparel volume. This development will open the door to exports from Botswana and South Africa to use the Trans-Kalahari Corridor to ship their products to the United States as well.

Lesotho has also enjoyed significant foreign investment as a result of AGOA. Many garment manufacturers have opened factories in the country but other existing companies have expanded their production to maximize the AGOA export opportunities. C and Y Garments began operation in Lesotho in 1985 and following the passage of AGOA, announced their intention to invest over $100 million in one of the largest denim textile mills in the world for Lesotho. C and Y Garments is currently exporting over 2.5 million denim trousers to the US market per month employing over 6,000 workers. Another garment manufacturer has recently begun production at the site employing another 1,800 employees. In 2004 when the mill is fully operationally, C and Y Garments and Formosa Textiles, their partner, will employ over 9,000 people in Lesotho due to the benefits offered under AGOA.

5. POST-SPECIAL RULE FOR APPAREL

The special rule refers to AGOA beneficiary countries designated as lesser developed (LDC) for the purposes of apparel. Those countries can export duty-free clothing made of yarn or fabric sourced from anywhere in the world. Non-LDC countries, including South Africa and Mauritius, must use only regionally produced yarn and fabric for their clothing to be considered duty-free. This rule is currently set to expire on September 30, 2004 when all countries will be required to source their yarn and fabric regionally from an AGOA eligible country to obtain duty-free preferences under AGOA.

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[12] 2003 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act, USTR, May 2003.

[13] U.S.-African Trade Profile, United States Department of Commerce, International Trade Administration, March 2003.

As of February 2003, 85% of all clothing entering the United States originated in a lesser-developed AGOA beneficiary country. There is no question that countries designated as lesser-developed countries have disproportionably benefited from AGOA apparel exports. Many companies have stated that the 2004 deadline for using foreign fabric comes too soon and will dampen exports to the US from the region. Garment manufacturers argue that they have not had sufficient time to form regional partnerships with textile firms or organize investment for fabric mills. They are also concerned that US companies will not continue to place orders in the region based on locally produced fabric. Most of the LDC countries have strongly agitated for an extension of the special rule for apparel. While no exact date has been determined, most companies believe at least another two years would be needed to adequately prepare for the change in status.

The textile industry, on the other hand, opposes an extension of the special rule deadline. The industry feels it is prepared to respond to demand in many fabric categories and are eager to supply regional markets for the export of apparel to the US. If the deadline is extended, garment manufacturers outside of South Africa and Mauritius, will not require regionally produced fabric as they will prefer to continue long-standing relationships with their current Far Eastern suppliers. As a consequence, creation of additional capacity or investment in the textile industry is likely to be discouraged. Many efforts are underway both in the region and the United States to demonstrate the South African textile industry's technical capabilities and production capacity in hopes of building strategic relationships and confidence for the future.

The uncertainty surrounding the extension of the special rule deadline has had a dampening effect on investment and capacity expansion in the region. Companies looking to expand production in South Africa are reluctant to do so if the anticipated return on their investment is unknown or subject to sudden change. Likewise, with plans to vertically integrate factories and locate textile mills in the region. While some well-established companies have already begun building new mills in the region, others are still waiting concerned about the undecided future of the special rule. Industries on both sides of the question are busy lobbying the US government for and against the proposition and are seeking quick resolution of the matter so more definitive plans can be made. The Hub continues to advise companies on developments as they happen as well as working with the textile and apparel industries towards clothing exports based on regional fabrics.

The upcoming United States-Southern Africa Customs Union Free Trade Agreement has also produced some anxiety as neither apparel nor textile producers understand how the agreement would affect their trading circumstances in the future, especially as it would apply to an extension of the LDC privileges and new market opportunities for direct textile exports. All of which would have an effect on capacity expansion and new investment in the region.

6. GROUPING 9

6.1 Progress

AGOA offers duty-free entry into the United States for nine groupings or categories of apparel and textiles. Grouping 9 refers to products that are hand-loomed fabric, handmade goods of hand-loomed fabric, and/or folkloric items. Folkloric means textile or apparel products indicative of the culture, traditions, history and people of the submitting country. Exports under this grouping must first come from an AGOA-eligible country with an approved apparel visa system and be certified by the Committee for International Trade Agreements (CITA) at the Department of Commerce before duty and quota-free status can be conferred. Following approval, items can enter the United States market free of duty or quota of any kind until the end of the AGOA trade preferences in 2008. Producers must meet the following requirements for Grouping 9 duty-free eligibility:

- Detailed descriptions of each item for which eligibility is sought must be written
- Samples of each item collected
- Contact information provided
- All materials should be submitted to the US Embassy for transmission to Washington DC

6.1.2 Hub Assistance

The Hub has assisted five countries in the SADC region – Botswana, Lesotho, Malawi, Namibia and Swaziland- to successfully negotiate folkloric agreements for Grouping 9 products with the US government. Producers in those countries are eligible to export immediately. The Hub continues to assist South Africa, Mauritius, Mozambique, Tanzania and Zambia with the approval process.

6.2 Country Status for Grouping 9 Products and Hub Assistance

The biggest challenge for these exporters is capacity and US buyer identification. Many of the groups are women's cooperatives and all are small-to-medium sized businesses that require special preparation and attention when entering the challenging and possibly disastrous US market for the first time. The Hub has designed a multi-level assistance program for these companies beginning with business and financial management followed by a detailed US marketing plan focused on specific organizations or companies with past buying patterns for home, gift and handicraft products. While this sector does not have the potential to substantially increase employment, it does offer work to women often in rural areas that would not otherwise have the opportunity learn new skills or have employment. In addition, Hub programs with small businesses in this sector are designed to bring the benefits and opportunities of AGOA directly to the people of Southern Africa. Table 3 on the following page represents the Grouping 9 status of countries in Southern Africa.

After the Hub discussed and outlined the characteristics of the US market to companies in Lesotho, they decided to form the Lesotho Mohair Association in an effort to address the large quantity expectations of American buyers. The women will accept orders and jointly produce to meet the quantity demands. This level of cooperation is rarely seen in the region and will assist them greatly in satisfying the high standards and requirements of American importers. Several companies are already exporting in small quantities elsewhere in the world. However, with the proper preparation and guidance on selling in the US market, these small businesses and women's cooperatives could establish a sustainable, size-appropriate buying clientele in the US that would allow them to expand their businesses and train new employees.

Table 3. Country Status for Grouping 9 Products

Country	Status
Botswana	Products certified and folkloric agreement concluded
Lesotho	"
Swaziland	"
Malawi	"
Namibia	Submission under consideration at US Dept. of Commerce
Zambia	"
Tanzania	"
Mozambique	"
South Africa	Hub assistance offered to South African government and SAIBL project to assist with submission (not yet started)

7. TRADE LINKAGES WITH OTHER AFRICAN REGIONS

Though distance and poor transportation infrastructure has hampered trade between the regions of Africa, a few examples of AGOA-related inter-regional trade do exist. Cotton is major input to the regional textile industry. In recent years, the demand for cotton has outstripped supply considerably. While imports from Australia and the United States often make up for a portion of the shortfall, South African textile mills are increasingly turning to West Africa for cotton lint. West Africa, particularly Mali, has a highly developed cotton industry to supply the fabric mills of Nigeria, Ghana and Cote d'Ivoire, which are known for their beautiful traditional cloth. As a result, cotton is also available for export that meets the standard requirements for export fabric production. SACU imported $1.4 million in cotton from Mali in 2001. That figure will continue to increase post-2004 as more fabric is produced in the region to meet AGOA demand. Although Uganda and other East African countries are cotton growers, regional textile producers are concerned that the expensive internal shipping costs, particularly via rail transport, will prevent these products from being competitive despite their proximity. West Africa has the benefit of direct sailings between Lagos and Cape Town or Walvis Bay, which reduces overall transportation costs and time, making West African cotton more attractive to Southern African buyers.

8. NATIONAL AGOA STRATEGY DEVELOPMENT AND HUB ASSISTANCE

A series of stakeholder consultations conducted throughout the SADC region last year resulted in an assessment of country trade development program priorities. Many countries expressed interest in Hub assistance to develop export promotion strategies that help private companies take advantage of new market opportunities under AGOA and other regional, multilateral preferential trade agreements. In addition, stakeholders throughout the region expressed demand for technical assistance related to creation of an enabling environment for trade, including trade facilitation, trade capacity building, institution strengthening, export promotion, product development/marketing and formation of regional supply chains.

The Hub launched a series of national AGOA strategy workshops last year in direct response to stakeholder requests with strong support from Embassies and USAID missions in those countries. During the AGOA Forum in Mauritius the Executive Director of COMESA announced his intention to launch a region-wide AGOA strategy forum and solicited Hub support in this process.

8.1 Zambia

The first national workshop on AGOA strategy development sponsored by the Ministry of Trade, Commerce and Industry (MCTI) with assistance from the Hub and ZAMTIE (Zambian Trade and Investment Enhancement Project) was held November 2002.

During the opening remarks by the Ministry of Trade it was made clear the "New Deal" Government is committed to poverty reduction through export diversification, targeting and/or developing products with highest export market potential e.g. coffee, cashew nuts, floriculture wood products, tropical fruits, fish, meat/leather products (and revitalization of the moribund textile sector).

The workshop resulted in formation of an action plan with key strategic objectives designed to enhance Zambian export competitiveness and to build capacity for exporters to sell goods in US, international and regional markets.

This was the first time public and private sectors agreed to engage in active dialogue to build national consensus on measures that need to be taken to *enable* Zambian exporters to be competitive in foreign markets. Key institutions, private companies and government agencies agreed to work together in managing and implementing a plan of action.

Main Strategic Objectives include:

- Identify sectors where Zambia has a comparative/competitive advantage – including identification of AGOA priority sectors (and sub-sectors)
- Increase access for Zambian products in U.S, regional and international markets
- Promote business linkages that lead to creation of regional supply chains
- Improve access to capital -- on reasonable terms that companies can afford
- Promote FDI through target market outreach campaigns
- Strengthen MCTI capacity building in trade negotiations and trade promotion

- Build capacity of local health and food safety agencies to comply with US SPS/food safety standards and product testing requirements

The Hub was invited to participate as a member of the AGOA Steering Committee. In March 2003 an AGOA national working group convened to discuss ways to drive the process forward, including creation of a new Export Crop Committee to identify key export products by target market in partnership with the private sector.

The national working group includes: major producer associations (textiles, leather export growers, flowers), the Agricultural Trade Forum, and representatives of gem stone, mining, forestry, handicraft and specialty oil companies. Key government team members include: Ministries of Commerce Trade and Industry, Agriculture, Mines, Finance, Environment and Legal Affairs.

These two working groups proposed a timetable for immediate "next steps" once a briefing paper on Strategy Implementation is approved by the Ministry of Commerce:

- Approach donors and strategic partners for technical assistance and funding to conduct export sector competitiveness studies with BSO/association inputs
- Coordinate and streamline public/private sector trade/investment promotion program with MCTI leading the process
- Compile data and prioritize export crops including steps that need to be taken in the PRA approval process for agricultural products. Engage 2 national livestock experts to determine how to manage the sub-sector for export-lead growth

The above activities would lead into multi-sector workshops to be held in Spring 2003 (Southern Hemisphere) to discuss findings and to galvanize sector specific strategies, including work plans for export competitiveness enhancements and FDI promotion.

8.1.2 Status of Hub Assistance

The Hub had agreed to assist with follow up action steps and sector-wide workshop sponsorship in tandem with ZAMTIE, the Ministry of Trade, Agriculture Consultative Forum and members of the Export Crop Committee, including the AGOA Lead Committee.

8.2 Namibia

The first national AGOA strategy workshop was held in Namibia in April 2003. During a visit to Namibia by Hub staff it was decided the Namibian business community would greatly benefit from a series of workshops designed to enhance export competitiveness leading to greater Namibian sales of goods and services to international markets. USAID officials and the U.S. Ambassador to Namibia strongly agreed that timing for this event is crucial given expanded AGOA benefits for Namibia and pending negotiation of the SACU-FTA.

Opening remarks made by the U.S. Ambassador and the Deputy Minister of Trade and Industry emphasized the importance of formulating a strategic plan for Namibian companies so they can take advantage of preferential trade agreements and AGOA markets through increased regional business linkages and trade capacity building.

The workshop resulted in a streamlined plan to meet strategic objectives:

- Enhance public/private sector engagement and collaboration in export and trade development program management
- Design programs for exporters, including SMEs that address supply-side constraints, capacity building and lack of access to finance
- Identify challenges and constraints in private sector production capacity by industry cluster, and determine training requirements
- Develop national strategy for taking advantage of AGOA and other markets
- Establish joint-venture partnerships with foreign firms with the aim of attracting new FDI and technology transfer
- Identify products with comparative and competitive advantages and opportunities to develop value-added exports
- Identify institutional capacity constraints associated with conducting export promotion activities
- Enhance production capacity of the private sector through "group marketing" of exports to enable small producers to be more competitive
- Create business linkages, coupled with market intelligence to help Namibian companies position products and services in new foreign markets, especially the US under AGOA

An AGOA national working group was established to drive the process forward. There was unanimous agreement that Namibia needs to create a National Export and Trade Promotion Board to represent government and business sectors in export promotion activities since no institution is capable of doing this at present. In addition the Board would address the trade issues and challenges mentioned above.

The national working group agreed to start identifying companies that are export-ready; and targeting others with high export potential by sector and market segment.

The national working group is preparing a proposal for obtaining funding from donors to launch the new Export Board; and it was suggested by the Hub Advisor that Namibian stakeholders seek funding from private as well as public sources. The Hub also advised the Chairmen of the national working group to consult with the Zambian Export Promotion Board to glean information on how they created their institutional framework and successful plan of action. The Ministry of Trade and Industry believes strongly that fast-track creation of the Export Board will support the SACU-FTA negotiations and enhance business advocacy in future trade negotiations on a bilateral, regional and multilateral basis.

Representatives of the national working group include: Ministries of Trade, Industry, Finance, Agriculture and Namibian Trade Associations (manufacturing, fishing, agricultural board and private industry officials.

8.2.2 Status of Hub Assistance

The Hub had agreed to coordinate additional sector–wide workshops in tandem with Sigma One (program for SME development), USAID Namibia, the Embassy and members of the national AGOA strategy committee.

8.3 Tanzania

The first national workshop on AGOA Strategy Development originally scheduled for March 2003 was postponed due to travel restrictions. However the Ministry of Trade, Tanzania Business Council, Tanzania Chamber of Commerce, Industry and Agriculture and National Development Corporation have approved a comprehensive program agenda.

Tanzania has formally declared through the Development Vision 2005 the goal of poverty reduction through export led growth; and is currently working with numerous donors on designing trade related technical assistance programs. AGOA market access is one of the highest priorities of the Tanzanian Government. Our consultations with stakeholders in Dar es Salaam in September and December 2002 resulted in identification of strategic objectives in trade development planning where Hub interventions may be required:

- Trade capacity building programs that enhance participation of Tanzanian private and public stakeholders in the Multilateral Trading System (MTS)
- Foreign investment promotion programs that highlight new EPZs – facilities and incentives – and new tax laws as stated in the Budget Report June 2003
- Creation of new market access opportunities for SMEs on a local, regional and international basis, first focusing on AGOA
- Educational seminars and workshops on how to do business with the US and how to locate strategic investors for key sectors in Tanzania
- Agricultural export diversification strategy development to move Tanzania from a seed to processed goods economy

- Maintain public/private partnership created by the National Business Council and the Tanzania Private Sector Foundation (with 5 company and 5 government representatives) reporting directly to the President of the Republic
- Create a better enabling environment for trade through lowering transaction costs and transport transit times

8.3.2 Status of Hub Assistance

A National Committee for AGOA has been established at the Presidential level. As Chair of the National Steering Committee for AGOA, the Minister has requested Hub assistance in coordination of AGOA training seminars for businesses in the region. The U.S. Ambassador is playing a very active role in promoting bilateral trade ties. He was delighted the Hub accepted his invitation to participate in the 27th Annual International Trade Fair in June 2003 where an AGOA booth was featured. The AGOA National Strategy Workshop platform is ready for implementation. In October 2003 the ITC plans to co-host a seminar on the new Integrated Framework for Trade Related Technical Assistance where donors and stakeholders will agree on an action plan to enhance export sector competitiveness and to enable Tanzania to participate more effectively in the multilateral trading system.

8.4 Other Countries

The Hub has completed a GSP Assessment and Country Export Survey Report for all AGOA eligible countries in SADC. This report is an invaluable tool for governments and private sectors implementing national export strategies that help companies sell goods and services in new regional and international markets.

Other countries that have expressed interest in developing export diversification and/or export promotion strategy workshops include: Mozambique, Malawi, Swaziland and Angola (not yet AGOA eligible).

9. REGIONAL INTEGRATION WITHIN SADC AND PROGRESS TOWARD A SADC FREE TRADE AREA

Countries in the SADC region are liberalizing tariff barriers to trade, albeit more slowly than other parts of the world. The average tariff rate in Africa is 19% vs. 12% for other parts of the world. With trade liberalization schemes currently underway this gap should narrow, creating new incentives for inter-regional trade expansion

The larger problem in the region is dismantling non-tariff barriers (NTBs) to trade. Countries will need more technical assistance from donors including foreign direct investment to support this process. Meanwhile progress toward a SADC Free Trade Area is underway with a timetable for creation of a single economic community.

Under the SADC Free Trade Agreement launched September 2000, South Africa and BNLS (Botswana, Namibia, Lesotho, Swaziland) countries will reduce tariffs over a five-year period while other SADC countries will take eight years to implement tariff reduction schedules.

This will help BNLS to alleviate problems associated with small domestic markets, and consequent lack of global competitiveness.

In May 2003, the US-SACU Free Trade Agreement negotiations were initiated. The FTA will widen preferential access to markets leading to increased exports, regional economic growth and private sector capacity for competitiveness. USAID will continue to provide technical capacity building (TCB) assistance to the five SACU countries during the negotiations and actual FTA implementation. It is expected that the SACU-FTA will greatly enhance regional competitiveness, especially for BNLS countries. .

The SADC Secretariat is aiming to lower internal tariffs covering 85% of regional trade by 2008 so that intra-SADC trade in goods and services is virtually duty-free by 2012. SADC expects to create a Customs Union by 2010 and a Common Market by 2015.

Trade liberalization measures will play a role in rationalizing overlapping membership in SADC and COMESA. Nine SADC countries – Angola, Democratic Republic of the Congo, Malawi, Mauritius, Namibia, Seychelles, Swaziland, Zambia and Zimbabwe – are members of COMESA. Ideally movements toward regional integration will deepen "intra" as well as inter-regional trade, thereby stimulating the process of convergence. It remains to be seen if one institution representing SADC, COMESA and EAC will emerge. A joint SADC – COMESA working committee has been created to monitor institutional convergence issues.

10. HUB CONTRIBUTION TO CREATION OF AN ENABLING ENVIRONMENT FOR TRADE

Through SAGC Hub intervention, progress has been made toward improving the enabling environment for trade particularly in the areas of transport and customs clearance procedures.

The Hub is working with stakeholders to identify key impediments to movement of goods across borders and design solutions to those problems through public/private sector partnerships.

The results of the nearly completed competitiveness sector assessment will provide additional information to the transport and customs reform teams to better focus their activities to improve the trade environment.

10.1 Movement of Goods Across Borders

Poor roads, dilapidated rail networks and inefficient ports need to be modernized and/or upgraded substantially. The high cost of transport and slow transit times makes the SADC region less competitive.

The SAGC Hub is working with operators, customs officials, business intermediaries and transporters to create a harmonized system for clearing goods through the Trans Kalahari Corridor. This year the Hub facilitated an agreement between Botswana, Namibia and South Africa to promulgate subsidiary legislation on (Customs Rules) to that effect.

In many countries paperwork associated with insurance, import-export licensing and clearance procedures is complex and cumbersome. The SAGC Hub is providing technical assistance to the SADC Subcommittee on Customs Cooperation (SCCC) to standardize forms for customs clearance, verification of origin, road freight manifests, and transit inspection reports.

Adoption of a Single Customs Document will make the TKC more efficient as cross-border clearance procedures take less time.

The SAGC Hub is working with transport operators along the TKC to extend border hours so trucks can deliver products to market in a more timely fashion. With SAGC Hub support transport operators are also harmonizing road user charges so trucks can clear border crossings quickly.

The Hub experts are working with SADC member states to harmonize rules of origin procedures that support trade transactions conducted under AGOA and other preferential trade arrangements. Guidelines for their implementation are aligned with SADC rules of origin interpretations.

The Hub work on Dar and TKC corridors supports region wide industrial development, especially under the Spatial Development Initiative (SDI). This initiative spearheaded by SADC aims to revitalize moribund industries along key corridors. The goal of SDI is to develop first-rate infrastructure as a precondition for attracting investments into potential export industries situated along corridors. One very successful SDI program is now being implemented along the Maputo Corridor.

10.2 Trade in Agricultural Goods

In terms of agricultural trade, the backbone of many economies, the SAGC Hub is providing technical assistance to national institutions, farmers, producers and exporters seeking to export raw, semi-processed and processed goods to regional and international markets. The dismantling of barriers to trade in the agricultural sector can be facilitated through harmonization of SPS measures within SADC.

The SAGC Hub has helped SADC countries harmonize legal frameworks in order to comply with SPS standards. In 2002 the SPS unit conducted an assessment of SPS regulations and standards in 11 SADC countries. It also produced a draft SPS annex to the SADC Protocol that is now pending approval by the Council of Ministers.

10.3 Lack of Market Information

A big problem in the region is the lack of reliable market and firm-level data, making development of competitive strategies more difficult. The SADC Secretariat is launching an Industry and Trade Information System albeit with difficulty due to lack of accurate, timely trade data. This is an area where the Hub and SADC member states need to cooperate more closely as trade expands and companies require market information. The Hub has initiated an outreach program to collect statistical data and reports on industry/market and product trends in collaboration with key stakeholders. This data collection process needs to be accelerated and streamlined within the Hub's new Communications Unit.

11. CONCLUSIONS

By taking advantage of AGOA opportunities, Southern African businesses have increased their exports to the U.S., creating jobs, foreign direct investment and markets for certain products. The textile and apparel sectors have benefited most from AGOA due to duty free and quota free access to the U.S. market, utilizing fabric sourced anywhere in the world. Uncertainty remains, however, over textile and apparel exports from the SADC region after 2004, when the Multi-Fiber Agreement ends, which is dampening investment and factory expansions. Some companies have responded to this uncertainty by vertically integrating their factories to produce both fabric and clothing. In addition, the prospects for trade linkages between African countries outside the SADC region (such as SACU and Mali) are likely to improve after 2004 as more fabric is produced in the region to meet AGOA demand.

Promising categories of AGOA exports include the agricultural sector, primarily horticulture and flora-culture, as well as the leather and footwear sectors. In the case of the former, the technical assistance available through the APHIS representative assisting the Hub will improve U.S. market access for South African exporters through in the writing of Pest Risk Analyses and improved phyto-sanitary inspection procedures.

The SAGC Hub has been instrumental in improving the enabling environment for trade particularly in the areas of transport and customs clearance procedures. Creation of a single document for clearing goods through the Trans Kalahari Corridor as well as efforts to extend border hours and harmonize road user charges along the TKC have improved trade flows and reduced associated costs.

In sum, businesses in the SADC region have responded positively to the duty free incentives under AGOA provisions through increased exports to the U.S. The long term success of AGOA, particularly in the textile and apparel sectors, will depend upon what happens to the post 2004 special rule for apparel, and how aggressively participating countries pursue improvement of their enabling environments in ways that stimulate private sector competitiveness.